

UDK 352:336.146(497.7)

MEASURING BUDGET TRANSPARENCY OF THE MACEDONIAN MUNICIPALITIES - TRANSPARENCY AND ACCOUNTABILITY AT LOCAL GOVERNMENT LEVEL

Vesna Garvanlieva Andonova,
Center for Economic Analyses (CEA), vesna_nl@yahoo.com

Ana Marija Petrovska,
Center for Economic Analyses (CEA), petrovska.anamarija@yahoo.com

Marjan Nikolov,
Center for Economic Analyses (CEA), makmar2000@yahoo.com

Abstract

The transparency strengthens the credibility of the government policies and improves fiscal discipline while at the same time enables a platform for enhanced citizens' satisfaction of the public services; participation of the citizens in the process of preparation of the public policies and ultimately increases the willingness to pay (more) for the public services. An effective local governments' transparency is necessary for accountability. While these two are not an end in itself are however pertinent means to support an effective and inclusive decision-making within the budgeting process. The legal and budgetary mechanism that enable contribution from the local communities/citizens are particularly important for certain local government decisions in order to increase the accessibility to the general public i.e. the citizens at large.

This paper evaluates the budget transparency among the eighty one (81) local self-government units in Macedonia through an index measuring the degree and the method of disclosure of eight (8) budget process related documents. The objective of this paper is to analyze the transparency of the local self-government units' budget process and the availability of the "key" budget process documents; their accessibility and the methods of accessibility, in order to determine whether there has been an improvement or decline from 2014-2015 to 2017-2018.¹ The research establishes a scoring tool combining the number of budget related documents made accessible and the source of availability however not considering the content quality or the efficiency of effectiveness of the budget execution.

1) Monitoring period for the fiscal 2016-2017 information covers the availability of the budget documents which are considered for the period up until 14/2/2017. The Monitoring period for the fiscal 2017-2018 information covers the availability of the budget documents which are considered for the period up until 29/6/2018.

The scoring methodology used for determining the level of availability and transparency of the LSGU budget process in all municipalities in Macedonia covers scoring of the budget transparency both based on the level and manner (source) of availability of the basic process documents. For the purposes of this paper, local government budget transparency is measured by the number of available key budget documents disclosed and the medium/source where these are published, being scored on a scale from minimum 0 to maximum 16 index score points.

The availability of the eight documents does not indicate outright budget process transparency nor do we suggest that it means absolute accountability of the authorities however it demonstrates a step towards increased citizens informed and active civic participation.

INTRODUCTION

The transparency strengthens the credibility of the government policies and improves fiscal discipline while at the same time enabling a platform for citizens' satisfaction for the public services it provides, for participation of the citizens in the process of preparation of the public policies and ultimately an increased willingness to pay (more) for the public services. In essence, an effective local governments' transparency is necessary for accountability and these are not an end in itself, but means to support effective and inclusive decision-making in the budgeting both on a national and on a local level.

The bottom-up participatory structures for enhancement of the local government transparency and accountability need to be enwoven in both the legal, political and administrative tools for active involvement of the civic sector. The legal and budgetary mechanism that enable contribution from the local communities/citizens are especially important for certain local government decisions in order to increase the accessibility to the general public at large.

Furthermore, higher fiscal transparency enables informed public discussion and consensus on the government's priorities and policies while having a positive influence over the destructive effect of corruption and inadequate accountability at all governmental levels. Therefore, local governments' transparency and accountability should not be viewed independently, but as a crucial part of the overall good governance and public resource management.

Fiscal transparency² can serve as an early warning for potential fiscal risks through proper reaction when economic assumptions are changed. And more, fiscal transparency provides accountability toward citizens-taxpayers and can improve creditworthiness of the country toward international capital market.³

Studies published in the past predominantly focus on the national level budget process transparency, while to a smaller extend on the local level government transparency and accountability. Thus there is a gap in the research in this area, where our paper attempts to provide a contribution and comparison with formerly gathered information and data on the same subject. This paper examines the degree of transparency of the local level budget documents in the eighty one local government units in R. Macedonia including the City of Skopje as separate local government unit.

The objective of this paper is to determine the transparency of the local self-government units' budgets through measuring the availability of the key budget process documents and to determine whether there has been an improvement or decline between the periods 2014-2015, 2016-2017 and 2017-2018.⁴

2) Fiscal transparency – the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances – is critical for effective fiscal management and accountability, Fiscal Transparency Code, International Monetary Fund

3) Budget process in Macedonia: Recent developments and challenges, Nikolov, Marjan, Center for Economic Analyses, 2009, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1443394

4) Monitoring period for the fiscal 2016-2017 information covers the availability of the budget documents which are considered for the period up until 14/2/2017. The Monitoring period for the fiscal 2017-2018 information covers the availability of the budget documents which are considered for the period up until 29/6/2018.

Budget transparency is defined as “a full disclosure of all relevant fiscal information in a timely and systematic manner.”⁵ (OECD, 2003). Therefore, a budget transparency implies that the information in regards to the budget are publicly accessible and are wholesome, relevant, correct, produced and issued timely and presented in understandable manner.

Considering that there are still no legally binding obligation for the LSGUs to publish all the key budget and budget execution documents on the official websites of the LSGUs,⁶ but merely within the Municipal Official Gazette (which is not electronically published among all LSGUs) there will not be an assessment of the compliance with the legal disclosure.

The paper is structured as follows: review of the literature and theories on budget transparency and local budget transparency, the methodology for indexing is elaborated, followed by the results of the budget transparency measuring and finally the conclusions and recommendations are drawn.

Literature review

The theoretical model presented in this work is related to the following literature. There are three types of theories that explain the financial accountability. In this study we call upon the two theories (Principal-Agent and Stewardship theory) which give a brief description. In the past, financial accountability researchers have relied on Agency and Stewardship theories explaining the phenomena that may hinder the exchange of financial information in the accountability and transparency processes. Macedonian public sector like other countries with lower level of economic development has accountability mechanism based on an Agency model.

Accountability mechanism following the assumptions of principal - agent theory focus on monitoring procedures in order to reduce information asymmetry. This can enhance the disclosure of information but may result in an information overload problem on the part of the accountors and the accountees (Greiling & Spraul, 2010).⁷ Agency theory describes the strategic interactions between two parties, called the principal and the agent (Halachmi, 2004).⁸ The agent acts on behalf of the principal; with the assumptions that the actors are utility maximizers driven by self-interest who act in situations of bounded rationality and normally differ in their aversion to risk. Principal-agent theory is concerned with the problem of the conflict of goals between the principal and the agent and the difficulty or the inability of the principal to verify what the agent is doing (Eisenhardt, 1989).⁹

The relationship between the actor (accountor) and the forum (accountee) is often interpreted as one between agent and principal (Bovens, 2007b),¹⁰ this is not only true for economics but also for political science (Greiling & Spraul, 2010).¹¹ The theory assumes that the principal's access to information is limited, and that the principal cannot perfectly and without costs monitor the agent's actions (Jacobides & Croson, 2001).¹²

5) OECD Best Practices for Budget Transparency, 2003

<https://www.oecd.org/gov/budgeting/Best%20Practices%20Budget%20Transparency%20-%20complete%20with%20cover%20page.pdf>

6) Since the end of 2017 with an addition of an article paragraph within the Law on accounting of the budgets and the budget users, the LSGUs are obliged to publish the final accounts of the budgets (budget execution reports) on their websites

7) Greiling, D., & Spraul K. (2010). Accountability and the challenges of information disclosure. *Public Administration Quarterly*, 338-377

8) Halachmi, A. (2004.) Performance measurement, accountability, and improved performance. *Public Performance and Management Review*, 25(4), 370-374.

9) Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *The Academy of Management Review*, 14(1), 57-74.

10) Bovens, M. (2007b). Analyzing and assessing accountability: A conceptual framework. *European Law Journal*, 13(4), 447-468

11) Greiling, D., & Spraul K. (2010). Accountability and the challenges of information disclosure. *Public Administration Quarterly*, 338-377

12) Jacobides, M., & Croson, D. C. (2001). Information policy and shaping the value of agency relationships. *Academy of Management Review*, 36(2), 202-223.

On the other hand, transparency is a multifaceted concept that is often conflated with accountability or even corruption, impartiality and rule of law. Hood's analysis illustrates the tendency for transparency to bleed conceptually into other equally compelling normative standards such as rule of law, accountability, public participation, and deliberative democracy. (Hood 2006, 14).¹³ Moreover, Bellver & Kaufman give a definition of transparency which includes not only making information available and accessible to stakeholders, but also laws and regulations are administered and implemented in an impartial and predictable manner.¹⁴ Principal-agent theory is concerned with the problem of the conflict of goals between the principal and the agent and the difficulty or the inability of the principal to verify what the agent is doing (Eisenhardt, 1989).¹⁵ The main tenets of agency theory focus on information asymmetry,¹⁶ pre-contractual opportunism¹⁷ and moral hazard or post-contractual¹⁸ (Van Slyke 2006).¹⁹

Stewardship theory serves as an alternative to the reasoning of principal-agent theory (Donaldson and Davis 1997, 27).²⁰ In other words, this theory has been developed as an explicit counterpart to principal-agent theory. Stewardship theory stems from organizational psychology and organizational sociology. (Donaldson & Davis 1991, 51).²¹ Instead of shirking away, managers or accountants aim to do a good job and to generate value - not only for themselves but for their organization as a whole. Stewardship behavior can be interpreted as rational behavior: The steward identifies cooperative behavior as being more useful than self-serving behavior. (Davis, Schoorman & Donaldson 1997, 24).²²

However, this theory fails to consider the lack of trust within government agencies, the risk-averse dispositions of public managers and the lack of incentives for public officers; the deeply politicized environment and scrutiny for oversight and accountability create pressures for not developing trusting relationships because of external perceptions of corruption (Van Slyke, 2006).²³ Cribb and Slyke state that steward theory has not been tested particularly in voluntary sector research and public sector.²⁴ Furthermore, it fails to provide any empirical evidence for accountability in the public sector (Greiling and Spraul 2010).²⁵

13) Hood, Christopher (2006) Transparency in historical perspective In: Hood, Christopher and Heald, David, (eds.) *Transparency: the Key to Better Governance?*. Proceedings of the British Academy (135). Oxford University Press, Oxford, UK, 3-23. ISBN 9780197263839

14) Bellver, Ana, and Daniel Kaufmann. 2005. *Transparenting Transparency: Initial Empirics and Policy Applications*. World Bank Policy Research Working Paper.

15) Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *The Academy of Management Review*, 14(1), 57-74.

16) The information asymmetry sometimes referred to as information failure, that present whenever one party to an economic transaction possesses greater material knowledge than the other party. In other words, one party has information to other group that does not possess.

17) Precontractual opportunism occurs which a party to a contract can exploit hidden information.

18) Moral hazard occurs when a party to the contract uses information and expertise and act in its own self-interest, to the exclusion of the agreed upon goals).

19) Van Slyke, D. M. (2006). Agents or Stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory*, 17, 157-187.

20) Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, 16(1), 49-64.

21) Donaldson, L. and Davis, J.H. (1991) Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Australian Journal of Management*, 16(1), 49-64.

22) Davis, J.H., Schoorman, F.D. and Donaldson, L. (1997). Toward a Stewardship Theory of Management. *The Academy of Management Review*, 22(1), 20-47.

23) Van Slyke, D. M. (2006). Agents or Stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory*, 17, 157-187.

24) Ibid

25) Greiling, D., & Spraul K. (2010). Accountability and the challenges of information disclosure. *Public Administration Quarterly*, 338-377

As much of the policy literature today focuses on the role of transparency in reducing corruption, we find it compelling to explore what aspects more precisely might be necessary in order for transparency to enhance accountability and contribute to bringing about good government.

Transparency is sometimes more narrowly as “the release of information which is relevant for evaluating institutions” (Bauhr & Nasiritousi forthcoming).²⁶ Using a terminology derived from the principal agent framework, Lindstedt and Naurin make a distinction between agent controlled and non-agent controlled transparency. The release of government information by governments can be seen as a typical instance of agent controlled transparency, while the use of that information by external actors, such as the media, NGO or citizens is non-agent controlled.²⁷

Transparency and accountability, as two basic principles of good governance, are crucial in providing information and insight to the public on how public money is collected, allocated and spent. Additionally, transparency and accountability are necessary to show the determination and the intention of the public institutions, as well as to inform and share this information with the public (Trenovski Borche, 2014, 6). Trenovski states that no institutions in Macedonia has taken extra effort to introduce and inform the citizens about their budget in a visually simplified manner (preparation of Citizen’s budget).²⁸

Transparent budgets, in particular, encourage ease of access, present consolidated fiscal activity, contain auditing procedures, lack special accounts, and disseminate historical data (Poterba and Von Hagen, 1999). Budget transparency helps stakeholders assess an organization’s fiscal conditions, understand its costs, and the benefits of its services (Afonso, 2014; Dye et al., 2011). Governments that encourage budget transparency tend to be more democratic, have free and fair elections, and encourage partisan competition (Sayogo and Harrison, 2013; Wehner and de Renzio, 2013). Globally, transparency helps solve the collective action problems hampering development (Grigorescu, 2003).

Consequently, budgetary transparency has become a core theme of the debates on international development. It has been used in connection with international cooperation and conflict solution (Pallas & Urpelainen, 2011), the monitoring of international agreements (whether commercial or financial), monitoring the funds received as aid by developing countries or by countries undergoing financial crises (Chandy & Kharas, 2011), reducing corruption, and improving economic performance.

Przeworski (2010) writes that transparency enables citizens to know whether governments are defending public interests or not, so citizens can apply appropriate sanctions. Thus, politicians whose acts are favorable to citizens’ interest will be reelected, while those whose acts do not further these interests will lose elections. In other words, transparency makes it possible for governments to be held accountable for their acts, at least politically speaking. However, in a democratic environment, with strong, consolidated institutions, accountability should not only exist in the political sphere. This being the case, Schedler (1999) establishes three issues considered necessary for its effectiveness: information, justification and punishment. The first two (information and justification) refer to what the author calls “answerability”, namely, the duty of those who hold public office to inform, explain and answer for their acts; whereas the latter (punishment) concerns the capacity of enforcement, in other words, the capacity of agencies to impose sanctions and loss of power for those who violate their public duties.

One popular argument proposed by Fox (2007) holds that transparency leads to accountability when governments publish information and legislatures, supreme audit institutions (SAIs), and other formal oversight bodies use this information to hold government to account and apply sanctions, if necessary. Other authors,

26) Bauhr, Monika and Nagmeh Nasiritousi. Forthcoming. Resisting Transparency. *Global Environmental Politics*

27) Lindstedt, Catharina, and Daniel Naurin. 2010. Transparency is not enough: Making Transparency Effective in Reducing Corruption, *International Political Science Review*, 31: 301-322.

28) Trenovski, B. (2014). Improvement of the transparency and accountability through a performance based budget. Monitoring report on the transparency and accountability of the budget users, 6-7.
http://cea.org.mk/documents/cea_idscs_izvestaj%20od%20monitoring_eng.pdf

such as Yu and Robinson (2012), Peixoto (2013), and Khagram, de Renzio, and Fung (2013), have investigated other factors that play a role in connecting transparency and accountability, including the role of information intermediaries, international norms, and shifts in the political opportunity structure.

Research principle/methodology

The budget process documents are key documents since they outline the priorities of the local policies and the local programs. A transparent and open process leads to democratization and inclusiveness of the citizens in the policy creation and the public resource distribution.

Since the budgets are technical and not readily understandable for the wide public, an open process refers to information that are comprehensive but also simplified, understandable and provided in a timely manner, while easily accessible to the wide public. Subsequently, the budget transparency refers to the degree and simplicity with which the citizens can access the budget information, whether they provide overview on the planned/executed government's revenues, allocations, and expenditures, the availability of the documents, the easiness of their access and their timeliness.

The methodology used in the scoring of the level of availability and transparency of the LSGU budget process in the municipalities in Macedonia,²⁹ covers scoring of the budget transparency both based on the degree of availability and manner (source) of obtaining the key budget and budget process documents. For the purposes of this paper, local government budget transparency is measured by the number of key budget documents published and the medium/source where these are disclosed, as a level of transparency being scored on a scale from minimum 0 to maximum 16 index score points.³⁰

The key documents considered in the scoring through their availability are the following eight LSGU documents: (1) *Budget proposal*, (2) *Enacted budget*, (3) *In-Year quarterly budget execution reports*, (4) *Year-end budget execution report*, (5) *Annual report*, (6) *Citizens' budget*, (7) *Audit report* (by SAO)³¹ and (8) *Statute of the LSGU*.

These documents are considered as available and scored if the following criteria are met:

- *Budget proposal* - is considered as available if a document with this title³² has been published on the local unit's website separately, as part of the municipal Official Gazette or has been obtained through a request based on the Freedom of Information Act.³³ If not obtained in any of the methods used, the document is not considered as published or available. If the budget proposal is not published/available and the official response by the LSGU is that it is the same document as the Enacted budget³⁴ thus it is not available, this document is not considered as available.
- *Enacted budget* - is considered as available if a document with this title³⁵ (or Budget)³⁶ for the concerning fiscal year has been published within the local unit's website separately, as part of the municipal Official Gazette or has been obtained through a request based on the Freedom of Information Act. If the document is not obtained in any of these manners the document is not considered to be published/available.

29) Nomenclature of Territorial Units - NTES is based on the territorial organization of the local self-government in the Republic of Macedonia and it is harmonized with the classification of the European Union - Nomenclature of Territorial Units for Statistics – NUTS, established by Regulation (EC) No 1059/2003, there are 80 Municipalities, and one City, total of 81 LSGUs

30) From minimum 0 to maximum 14 if the State Audit Office has not conducted an audit in the last 5 years

31) SAO – State Audit Office of R. Macedonia

32) Предлог или Нацрт Буџет

33) Freedom of Information Act, official name Law on free access to public information, Official Gazette of RM (13/2006, 86/2008, 6/10, 42/14, 148/15, 55/16)

34) Усвоен Буџет

35) Усвоен Буџет

36) Буџет на општина

- *In-Year quarterly budget execution reports* - are considered as available if all quarterly documents with this title³⁷ (for the concerning period)³⁸ have been published on the local unit's website separately, as part of the municipal Official Gazette or has been procured through the usage of the Freedom of Information Act. If not, the document is not considered to be published. In the cases when only a "conclusion" for adoption (by the Municipal Council) has been published or provided the conclusion document, the budget documents are not considered as available.
- *Year-end budget execution report* - is considered as available if a document with this title (or title Final Account of the Budget)³⁹ has been published on the local unit's website separately, as part of the municipal Official Gazette or has been obtained through a request based on the Freedom of Information Act. Otherwise the document is not considered to be published/disclosed.
- *Annual report* - is considered as available if a document with this title⁴⁰ has been published on the local unit's website separately, as part of the municipal Official Gazette or has been procured through the Freedom of Information Act. Otherwise, the document is not considered to be published. If the annual report is not prepared/published/available and the reply by the LSGU is that it is the same as the Year-end budget execution report this is not considered as available document.
- *Citizens' budget* - is considered as available if any kind of simplified document presenting the budget revenues, expenditures or execution which is intended for the citizens and is following the principles of citizens' budget as considered by OBI,⁴¹ has been published on the local unit's website or has been procured through the Freedom of Information Act.
- *Audit report by SAO* - is considered as available if any audit report for the past five years have been conducted and published on the web site of the LSGU.⁴² The availability of the Audit report only on the website of SAO is not considered as available document, therefore only if any Audit report is published on the website or obtained through request of the LSGUs is scored. On the other hand, if the other budget documents are obtained through request of the LSGUs except the Audit report by SAO, it will be scored by -1.
- *Statute of the LSGU* - the Statute is the basic constitution document of the LSGUs and defines the openness, participation level and the related issues thus we consider that this is a crucial document for the transparency of the local government.

The easiness of the access of the citizens' considers the source of availability: if the document is accessible through a *specific designated area on the official website (2 points for each document)*, when disclosed within the municipal Official Gazette on the official web site (1 point for each document), when requested and received under the Freedom of Information Act (1 point for each document), in the cases when there is No information/no reply/does not exist/SAO has not produced an audit report within the last 5 years (0 points for

37) Кватрален извештај за извршување на буџет на општината

38) During the monitoring period for fiscal 2016-2017, the availability of the quarterly budget execution reports for the Q1, Q2, and Q3 for the fiscal 2016 are considered if separately published (not cumulative). During the monitoring period for fiscal 2017-2018, the availability of the quarterly budget execution reports for the Q1, Q2, Q3 and Q4 for the fiscal 2017 are considered if separately published (not cumulative).

39) Завршна сметка на буџетот на општината

40) Годишен извештај за работењето на општината

41) Guide to transparency in Government Budget Reports, Why are Budget Reports Important and What should they include, OBI, <http://www.internationalbudget.org/wp-content/uploads/Guide-to-Transparency-in-Government-Budget-Reports-Why-are-Budget-Reports-Important-and-What-Should-They-Include-English.pdf>

http://siteresources.worldbank.org/EXTSOCIALDEVELOPMENT/Resources/244362-1193949504055/4348035-1352736698664/Guidance_Note_Citizen_Budget.pdf

42) During the monitoring period for fiscal 2016-2017, the availability of the audit reports for any of the fiscal 2016 to 2012 are considered if these are conducted by SAO for the specific LSGU, during the monitoring period for fiscal 2017-2018 the availability of the audit reports for any of the fiscal 2017 to 2013 are considered if these are conducted by SAO for the specific LSGU.

each document specifically or -1 point⁴³ in the cases when SAO has produced an Audit report and the LSGU has not provided the document in any manner).

Through the usage of the index scoring method, there is possibility of maximum of 16 index points per LSGU in the case when all eight monitored documents are available through the “easiest and fastest” accessible manner - the official website of the LSGU on a specifically designated area for the local government budget process.

Furthermore, a comparison of whether there is an upgrading, downgrading or status quo has been completed through a comparison between the three periods: 2014-2015,⁴⁴ 2016-2017 and 2017-2018.⁴⁵ Depending on the period of publishing of the documents, there are three comparison indexes providing information and conclusion of whether there are any improvements of the availability of the documents among all eighty one.

Legally required budget disclosure for the local governments

The Constitution of Republic of Macedonia defines the level of self-governance as a right, and the unit for self-government defined is “the municipality” (Article 114).⁴⁶ According to the Law on Territorial Organization⁴⁷ there are 80 Municipalities (NTES⁴⁸ level 4) and the City of Skopje (NTES level 5, with covers 10 of these municipalities). The requirements for disclosure of the budget related documents regarding local government budget are specified in the budget legislation and the freedom of information legislation.

The Law on budgets,⁴⁹ considers budget transparency in the article 53⁵⁰ and 54 which respectively state, “The budget execution report of the municipalities shall be done in accordance with the law” and “(2) The municipal budget and its final account shall be published in the Official Gazette of the municipality”. The Law on local self-governance⁵¹ defines the obligations for informing the citizens through ways determined in the Statute “The organs of the municipality, the council committees, and public agencies established by the municipality shall be obliged to inform the citizens about their work, as well as about the plans and programs which are of importance for the development of the municipality without any compensation, in a way determined by the statute. (2) The municipality shall be obliged to enable access to the basic information about the services that it provides to its citizens, in a way and under conditions determined by the statute of the municipality.”⁵²

43) The last year index for 2017-2018 is subtracting (-1 point) for those municipalities that have undergone an audit and SAO has produced a report, yet did not publish nor provided the report based on a request based on the Freedom of Information Act. The indexes for former years have been altered in order to enable comparability

44) The City of Skopje is not monitored in the first round, thus there is no index comparison between the two points in time. The methodology for the 2014 – 2015 monitoring period includes additional manner of availability which is excluded in the 2016 – 2017 and 2017 – 2018 monitoring periods. In the 2014 – 2015 monitoring period was conducted direct interviews with municipal employees for obtaining public budget documents which is not a practice and part of the methodology in the other years.

45) Index score revised with altered methodology with -1 point for audit reports not published or not provided in any manner for those LSGUs that have undergone audit, in accordance the SAO programs for the past five years

46) <https://www.sobranie.mk/WBStorage/Files/UstavnaRmizmeni.pdf>

47) Law on Territorial Organization (Official Gazette of RM 55/2004, 12/05, 98/08, 149/14,

48) Nomenclature of Territorial Units - NTES is based on the territorial organization of the local self-government in the Republic of Macedonia and it is harmonized with the classification of the European Union - Nomenclature of Territorial Units for Statistics – NUTS, established by Regulation (EC) No 1059/2003

49) The Law on budgets (clean text), Official Gazette of RM (no. 64/05, 04/08, 103/08,156/09, 95/10, 180/11 171/12 192/15, and 167/16), available at http://www.finance.gov.mk/files/u249/Budget_law_cleared_version_20042010_0.pdf

50) Chapter VII, Budget transparency, Article 53

51) The Law on local self-governance (Official Gazette of RM (no.5/02)

12 52) The Law on local self-governance (Official Gazette of RM (no.5/02), Article 8

The transparency of the municipal council's work in the same law states“(2) the council sessions shall be public... (4) The presence of the public shall not be excluded at the debate on the municipal budget, annual balance sheet to the budget and the urban plans.”⁵³

While these legal acts deal only with the disclosure of the budget and the year-end report within the municipal Official Gazette there is no legal requirement for permanent availability of the key budget documents, neither for disclosure prior their approval, except for the presence on the council meetings. As of the end 2017,⁵⁴ with the alteration to the Law on accounting of the budgets and the budget users, an additional paragraph is inserted stating: *“the budget users are obliged to publish the final budget accounts on their web sites within 15 days from the day they submit the final accounts to the Register of annual accounts at the Central Registry”*

The Regulation does not require disclosure of existing documents such as the budget plan or audit report. The legislation does not define disclosure of in-year/quarterly budget execution reports, however some of the local governments disclose the in-year reports primarily through the municipal Gazette.

The status of budget transparency through main budget availability in the Macedonia LSGUs

This paper evaluates the budget transparency among the local self-government units in Macedonia through the level and manner of availability and disclosure of the budget documents. The disclosure requirements specified in the legislation are limited, i.e. a limited number of budget documents are obligatory to be published and there is no information of whether the noncompliance has lead/leads to any sanctions.

Analysis and comparison of the disclosure practice among the 81 LSGUs in Macedonia revealed that the LSGUs most often (and most likely) comply with the requirements stipulated in the budgetary laws as it can be seen that the most often available documents are the Enacted budget and the Year-end budget execution report. However, still a significant number of the LSGUs fail to comply with the requirements of the freedom of information legislation, both failing to respond to comply with the deadlines or providing the information/response at all. For the last 2017-2018 monitoring period 26 LSGUs (32%) out of the 81 requests, failed to respond within the legally set deadline, while additional 6 never replied to the requests (7,4%). In the 2016 - 2017 monitoring period, the number of LSGUs that never replied to the requests was almost tripled (17 out of 81 LSGUs) of the number for the 2017 - 2018 monitoring period.

After the expiration of the legal deadline of 30 days for submission of an answer regarding the submitted request for access to information of public character, an appeal was filed to the Commission for Protection of the Right to Free Access to Public Information (CPRAPI) for 7 LSGUs.⁵⁵ One of the LSGU after the filed appeal to CPRAPI has sent an answer regarding the submitted request and appeal.

In Macedonia, 34 out of 81 LSGU (42%) still have not published on the local unit's website contact information of the person in charge of public information in order to make the communication with the information requester easier. This case is more common in rural LSGUs.

Once again, there is no continuous practices of disclosure of the budget documents but rather “forced” transparency - if demanded. There is overall increase of the availability of the budget documents in the 2017-2018 index evident on an overall basis, however also there is an increased number of LSGUs that disclose the documents in a designated specific area and the overall availability of the documents.

53) The Law on local self-governance (Official Gazette of RM (no.5/02), Article 42

54) Law on accounting of the budgets and the budget users, Official Gazette of RM (61/02,98/02, 81/05, 24/11,145/15) with the Law for alteration and addition to the Law on accounting of the budgets and the budget users, (Official Gazette of RM (170/2017), adds to the article 29

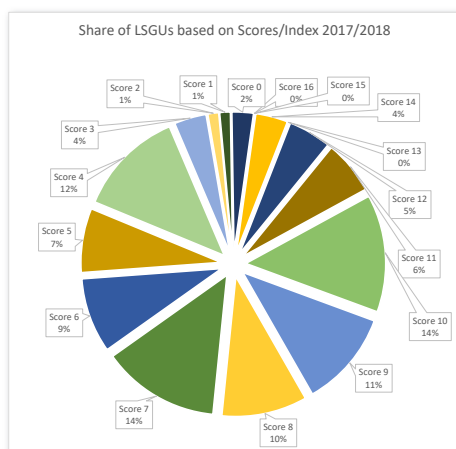
55) 7 appeals have been filed to the CPRAPI through the legal appeal procedure on 12.07.2018.

Figure 1 and Figure 2 indicate that still⁵⁶ not even one of the LSGUs produced and published all eight documents on the web site of the LSGU in a specifically designated area (thus there is no score of 16 points). For the first time 5 LSGUs (6%) have produced and published Citizens' budget.⁵⁷

Request for access to public information (RAPI) through the Public Information Act was sent to all 81 LSGUs for the budget documents that were not published on their web pages during the monitoring of the availability of budget documents on the official web pages of LSGUs.

The maximum number of documents produced and attainable by any single municipality is all eight (in two instances: Prilep and Strumica) regardless of the method for obtaining. The maximum number of seven documents available (in any of the manners used for obtaining documents) is attainable among eight LSGUs. The predominant share of municipalities have score of 10 index points and score of 7 index points (14% of the LSGUs in each group). In addition, if we take into consideration the LSGUs where the SAO has not conducted an audit report in the past 5 years (2013-2017), there are 7 LSGUs that have produced and made available (in any of the manners used for obtaining documents) 6 out of 7 budget documents.

Figure 1
Level of LSGU budget transparency, in % share



If we consider that the availability on the official websites as the easiest and fastest manner to be accessed, two municipalities can be separated as most transparent with availability of the seven (out of eight) budget documents available on the LSGUs' websites in a designated location specific to the budget process, these are the Municipalities of Bitola and Centar. On the other hand, there are still over ten municipalities that do not have functional web pages or those that do not use the official Macedonian language on their web pages.

The lowest scores of budget transparency⁵⁸ are measured among the municipalities of Saraj and Vrapciste with score of zero and no document available neither on the website, nor responded or provided the documents through RAPI. In regards to the municipalities Zelenikovo and Zhelino only one of the eight document is available/attainable.

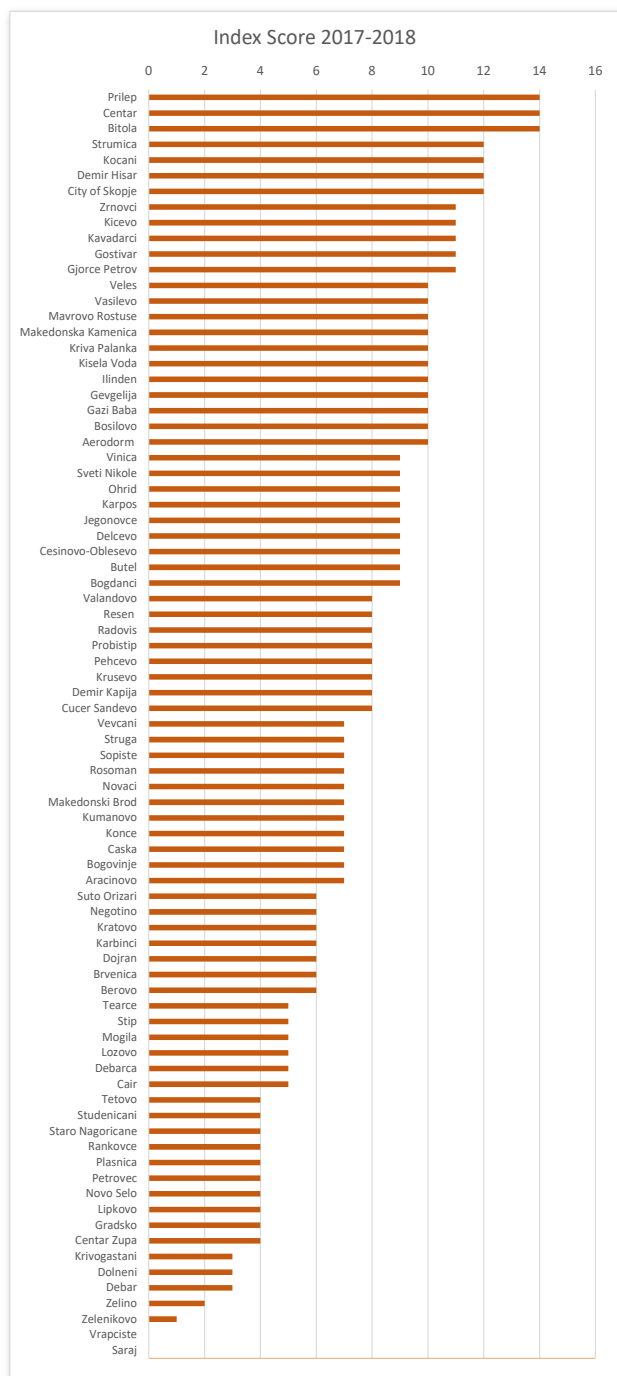
The most available documents, regardless of method of obtaining are the *Statute* (disclosed/obtained among 94% of LSGUs), *In-year reports* (disclosed/obtained among 93%), *Enacted Budget* (disclosed/obtained among 91%), and the *Year-end budget execution report* (disclosed/obtained among 90%). As for the remaining documents, only 6% provided Citizens' budget, 27% provided Audit Report, 35% provided Budget Proposal, and 68% provided Annual report. A significant part of the LSGUs still do not have the Gazette available on the website, which makes it rather impossible for the citizens to access the local budget documents.

56) Referring to the Index 2017-2018 monitoring period

57) Referring to the Index 2017-2018 monitoring period, LSGUs Prilep, Aerodrom, Stumica, Centar, Ilinden

58) Referring to the Index 2017-2018 monitoring period

Documents most often published and document not produced or published at all



Voluntary disclosure of budget documents (or proactive transparency) among the LSGUs in Macedonia still needs improvement. The budget document that is most easily accessed and available in a designated area on the website is the Enacted budget (available on the web of 50 LSGUs), followed by the Year-end budget execution report (available on the web of 48 LSGUs), the Statute of the LSGU (available on the web of 47 LSGUs).

In most of the cases the Budget proposal is not disclosed on the websites (7 LSGUs publish the document on the web), and is still a document that is often referred as “the same” as the Enacted budget. This is followed by the Audit reports (12 LSGUs published the reports on their website (if) conducted by the State Audit office); the Annual report (21 LSGUs) and the In-year reports (22 LSGUs).

The Annual reports are either not compiled or often associated with the Year-end budget execution report, thus the intent of being a “general purpose” report is associated with the detailed legal requirements. Moreover, most local governments do not use any alternative tools to communicate their results with substantial information which covers the degree of “achieved” objectives or the performance linked with the financial effects on the budget. This raises the questions if any and how the LSGUs provide accountability for their performance to their citizens.

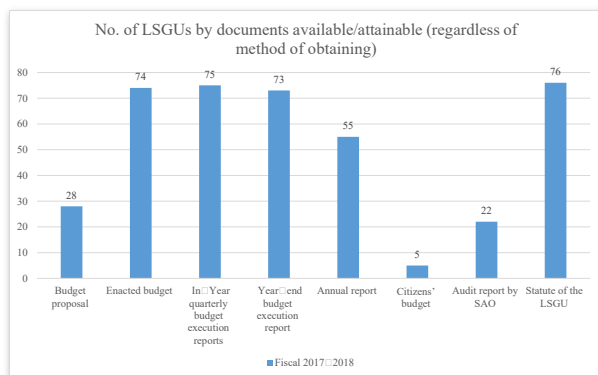
The inability of the LSGUs to provide the information grows if these and their accessibility (web site, official gazette, RAPI) is to be presented in a manner that the general public understands it

or is interested in it, which is the case of a preparation of a Citizen’s Budget. For the first time five of the LSGUs prepared and published such a document.

Figure 2 Index of budget document availability by LSGU

As Rubin states (Rubin, 2000, 9) “Accountability does not happen by itself; budgets do not wade into crowds and draw around them circles of admiring readers. Budgets need to be interpreted and someone has to tell a good story to get the readers involved”⁵⁹

Figure 3
Number of LSGUs with available /attainable budget documents, by document 2017-2018



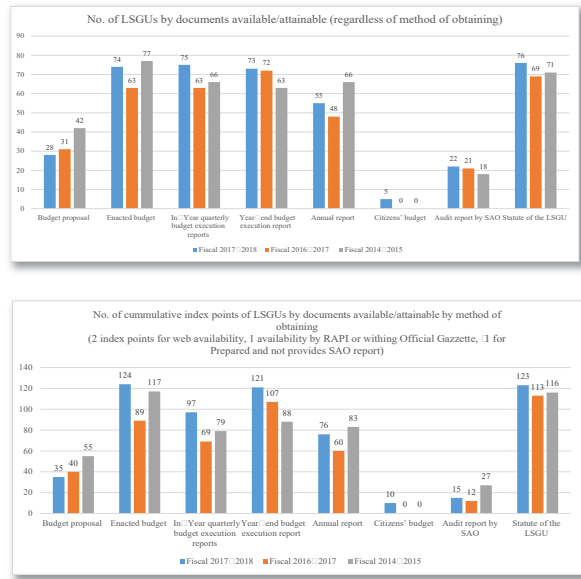
Budget transparency through document availability improved or declined?

The paper found that there is a considerable scope for improvement of the transparency of the local government budget process, while at the same time there are barriers that weaken the relationship and communication between local governments and the citizens. A very limited number of the local governments in Macedonia, timely and comprehensively publish and disclose the full array of budget related documents. The problem of limited transparency and accountability at a local level are interconnected to the absence or weak participatory decision-making in the budgeting process, weak mechanisms for monitoring and evaluation and low level of human capital. These are at the same time constraints of the local government affecting the quality of the services provided to the citizens.

Citizen participation as a concept that involves the civil society into government decision-making process is an essential component of a healthy democratic society. In Macedonia, not all municipalities organized budget forums where the society can express their needs and priorities of the community. Moreover, not all municipalities also respect the Public Information Act and their awareness of obligation of provision of the requested information is still at low level.

Most significant improvements in 2017-2018 compared with the previous period (2016-2017) are the availability of the In-Year quarterly execution reports and the Enacted Budget, while the availability of the Budget proposal availability has deteriorated. Considering the last legal changes, which oblige the LSGUs to publish the Year-end budget execution reports on the websites, the level of legal compliance can be evaluated as well. The monitoring indicated that for the fiscal 2017, only 49 LSGUs published the Year-end execution reports on a specific designated place on the web, and additional 8 LSGUs published the Year-end execution reports within the municipal Gazette, which is amounting to total of 70% of the LSGUs that comply with the legal obligations.

Figure 4
Number of LSGUs with available / attainable budget documents, by document, comparison 2014- 2015, 2016-2017 and 2017-2018



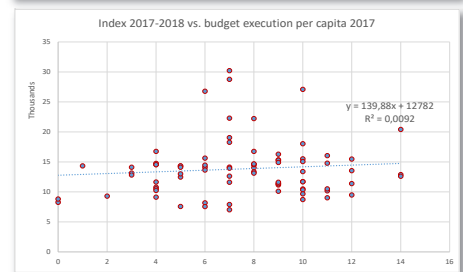
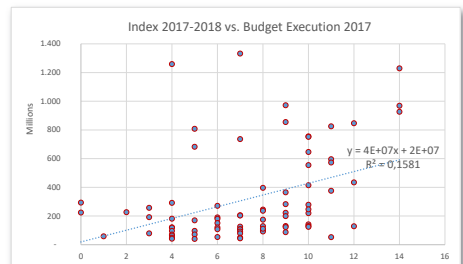
Factors correlated with budget transparency

In the attempt to consider if the index 2017- 2108 of the budget transparency are correlated with several factors. It can be concluded that the availability and manner of availability of the budget associated documents on a local level government are positively associated: to a limited degree with the size of the budget⁶⁰ (correlation 0.35), urban vs. rural municipalities (correlation 0.47, with the urban municipalities),⁶¹ and the size of the LSGU (population) (correlation 0.30). The larger the LSGU both by population, the budget size (in absolute value) and an urban LSGU, it is more likely to be more transparent in terms of disclosing budget related information and documents.

Figure 5
Correlation of the transparency index and selected variables⁶⁵

CORRELATION INDEX 2017-2018

CORRELATION	INDEX 2017-2018
BUDGET EXECUTION	0,35
BUDGET EXECUTION PER CAPITA	0,10
URBAN RURAL	0,47
POPULATION SIZE	0,30
HOUSEHOLD NUMBER	0,33



60) Executed budget, in absolute value in MKD for 2017

61) Coding urban with 1 and rural with 0; the average index of the urban municipalities is 8.75 while for the rural the average index is 5.84 out of 16.

62) In the scatter diagram, the LSGU City of Skopje is excluded in the visual representation as it is an outlier, the budget of the City is 3.6 times larger in value than the second largest LSGU by total budget executed

Conclusions & recommendations

The above analysis indicates still relatively low level of budget transparency among the Macedonian local self-government units. The most transparent in regards the overall average level of transparency (in accordance with the above described methodology) are the municipalities of Prilep, Bitola and Centar, with a score of 14 (out of maximum 16), followed by City of Skopje, Strumica, Kocani and Demir Hisar with scores of 12 points. The least transparent are Saraj and Vrapcishte with scores of 0.

Furthermore:

- As many as 2.5% of the municipalities did not publish/provide a single budget related document.
- The number of municipalities that publish the draft budget (budget proposal) for the following fiscal year on their website is small, only 9% of the municipalities published the Budget proposal for 2018, thereby depriving the possibility of interested citizens to participate in planning the budget of their municipality.
- 6% (5 municipalities) prepared and published Citizens' budget for 2018 for the first time, suggesting a positive trend however still overall lack of incentive for citizens' participation and monitoring of implementation.
- 27% of the LSGUs published their In-year quarterly budget execution reports on the web site which is a significant increase from previous years.

It is evident that due to the last legal changes obliging the municipalities to disclose the Year-end budget execution reports, the legal changes are driving the improvement in local budget transparency and accountability. However, there is still a space for significant improvement in the area. In these circumstances the improvements are to be expected if:

- The lack of administrative and financial capacity is adequately addressed
- Political awareness and willingness among the representatives (mayor and councils) is improved
- A demand driven trigger for increased budget transparency among the citizens and the media is achieved
- The legislation puts further pressure for increased budget transparency
- Increased awareness and capacities among the citizens of the benefits of budget transparency

All of these with the aim of improving the local budget transparency as a stepping stone towards increased accountability (towards the citizens), increased efficiency and interest for revenue collection and public expenditure, and decreased corruption for the improved wellbeing of the citizens of the municipalities.

References:

- Afonso, W.B. (2014), Fiscal Illusion in State and Local Finances: A Hindrance to Transparency, *State and Local Government Review*, 46 (3), pp. 219–228
- Bellver, Ana, and Daniel Kaufmann (2005) *Transparencing Transparency: Initial Empirics and Policy Applications*, World Bank Policy Research Working Paper.
- Bovens, M. (2007b). Analyzing and assessing accountability: A conceptual framework. *European Law Journal*, 13(4), 447-468
- Budget process in Macedonia: Recent developments and challenges, Nikolov, Marjan, Center for Economic Analyses, 2009
- Chandy, L., & Kharas, H. (2011). Why Can't We All Just Get Along? The Practical Limits to International Development Cooperation. *Journal of International Development*, 23(5), 739–751. <http://dx.doi.org/10.1002/jid.1797>
- Davis, J.H., Schoorman, F.D. and Donaldson, L. (1997). Toward a Stewardship Theory of Management. *The Academy of Management Review*, 22(1), 20-47.
- Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns, *Australian Journal of Management*, 16(1), 49-64.
- Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *The Academy of Management Review*, 14(1), 57-74.
- Fox, Jonathan. 2007. "The Uncertain Relationship between Transparency and Accountability." *Development in Practice* 4: 663–671.
- Garvanlieva V, Petrovska AM, Nikolov, M, (2017), Governance, transparency and accountability at local government level: budget transparency of Macedonian municipalities, *CEA Journal of Economics*, Vol 12, No 1
- Garvanlieva V, Vlatko Andonov, Marjan Nikolov, (2012), Shadow Economy of Macedonia, *CEA Journal of Economics*, Vol 7, No 2
- Greiling, D., & Spraul K. (2010). Accountability and the challenges of information disclosure. *Public Administration Quarterly*, 338-377
- Grigorescu, A. (2003), International Organizations and Government Transparency: Linking the International and Domestic Realms, *International Studies Quarterly*, 47 (4), pp. 643–667.
- Guide to transparency in Government Budget Reports, What are Budget Reports Important and What should they include, OBI
- Guide to transparency in Government Budget Reports, Why are Budget Reports Important and What should they include, OBI
- Halachmi, A. (2004.) Performance measurement, accountability, and improved performance. *Public Performance and Management Review*, 25(4), 370-374.
- Hood, Christopher (2006) *Transparency in historical perspective* In: Hood, Christopher and Heald, David, (eds.) *Transparency: the Key to Better Governance?*, Proceedings of the British Academy (135). Oxford University Press, Oxford, UK, 3-23. ISBN 9780197263839
- Irene S. Rubin, (2010), Sixth Edition, *The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing*
- Jacobides, M., & Croson, D. C. (2001). Information policy and shaping the value of agency relationships. *Academy of Management Review*, 36(2), 202-223
- Khagram, Sanjeev, Paolo De Renzio, and Archon Fung, ed. 2013. *Open Budgets: The Political Economy of Transparency, Participation, and Accountability*. Washington, DC: Brookings Institution Press.
- Law on accounting of the budgets and the budget users, Official Gazette of RM (61/02,98/02, 81/05, 24/11,145/15, 170/2017)
- Law on budgets (clean text), Official Gazette of RM (no. 64/05, 04/08, 103/08,156/09, 95/10, 180/11 171/12 192/15, and 167/16)

- Law on free access to public information, Official Gazette of RM (13/2006, 86/2008, 6/10, 42/14, 148/15, 55/16)
- Law on free access to public information, Official Gazette of RM (13/2006, 86/2008, 6/10, 42/14, 148/15, 55/16)
- Law on local self-governance (Official Gazette of RM (no.5/02)
- Law on Territorial Organization (Official Gazette of RM 55/2004, 12/05, 98/08, 149/14)
- Lindstedt, Catharina, and Daniel Naurin. 2010. Transparency is not enough: Making Transparency Effective in Reducing Corruption, *International Political Science Review*, 31: 301-322.
- Nikolov, Trenovski, Dimovska (2015), Open and transparent budget process in Western Balkan Countries, *CEA Journal of Economics*, Vol 10, No 1
- Nikolov, M., (2009), Budget process in Macedonia: Recent developments and challenges, Center for Economic Analyses OECD Best Practices for Budget Transparency, 2003
- Pallas, C. L., & Urpelainen, J. (2011). NGO monitoring and the legitimacy of international cooperation: A strategic analysis. *The Review of International Organizations*, 7(1), 1–32
- Peixoto, Tiago. 2013. "The Uncertain Relationship between Open Data and Accountability: A Response to Yu and Robinson's 'The New Ambiguity of Open Government.'" *60 UCLA Law Review Discourse* 200
- Poterba, J. M. and Von Hagen, J. (1999) 'Introduction', In J.M. Poterba and J. Von Hagen (Eds.), *Fiscal Institutions and Fiscal Performance*. Chicago, IL: University of Chicago Press, pp. 1–12
- Przeworski, A. (2010). *Democracy and the limits of self-government* (9th ed.). New York: Cambridge University Press.
- Sayogo, D. S. and Harrison, T. (2013) 'Exploring the Socio-political Determinants of Open Budgets: A Cross-national Perspective', In R. J. Gil-Garcia (Ed.), pp. E-government Success Factors and Measures: Concepts, Theories, Experiences, and Practical Recommendations. Hershey PA: IGI Global, pp. 142–170.
- Schedler, A. (1999). Conceptualizing accountability. In A. Schedler, L. Diamond, & M. F. Plattner (Eds.), *The self-restraining state. Power and accountability in new democracies* (pp. 13–28). London: Lynne Rienner Publishers.
- Trenovski, B. (2014). Improvement of the transparency and accountability through a performance based budget. Monitoring report on the transparency and accountability of the budget users, 6-7.
- Trenovski, Nikolov, (2015), Cost – Benefit Analysis of performance based budgeting implementation, *CEA Journal of Economics*, Vol 10, No 2
- Trenovski, Nikolov, Garvanlieva, Mitevski, (2016), Fiscal transparency on local level – The case of the R. Macedonia, CEA, 7th international conference International Dialogue East West Economics, Megjunaroden centar za slavjanska prosveta
- United Nations Economic and Social Commission for Asia and the Pacific What is Good Governance?
- Van Slyke, D. M. (2006). Agents or Stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory*, 17, 157-187.
- Van Slyke, D. M. (2006). Agents or Stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory*, 17, 157-187.
- Yu, Harlan, and David G. Robinson. 2012. "The New Ambiguity of 'Open Government'." *59 UCLA Law Review Discourse*. 178

Annex**Measured Indexes and difference (+ Improvement, - Decline)**

LSGU Name	Index Fiscal	Index Fiscal	Improvement +, Decline -	Index Fiscal	Improvement +, Decline -
	2014-2015	2016-2017	(I2014-2015 to I 2016-2017)	2017-2018	(I2016-2017 to I 2017-2018)
1 Centar	8	7	-1	14	7
2 Prilep	10	8	-2	14	6
3 Bitola	11	11	0	14	3
4 Strumica	12	5	-7	12	7
5 City of Skopje	N/A ⁶³	11	N/A	12	1
6 Kocani	9	11	2	12	1
7 Demir Hisar	4	12	8	12	0
8 Gostivar	6	6	0	11	5
9 Kavadarci	8	7	-1	11	4
10 Kicevo	4	7	3	11	4
11 Gjorce Petrov	9	10	1	11	1
12 Zrnovci	2	10	8	11	1
13 Makedonska Kamenica	9	6	-3	10	4
14 Mavrovo Rostuse	4	6	2	10	4
15 Gazi Baba	12	7	-5	10	3
16 Kisela Voda	6	7	1	10	3
17 Vasilevo	5	7	2	10	3
18 Veles	9	7	-2	10	3
19 Aerodrom	8	8	0	10	2
20 Bosilovo	8	9	1	10	1
21 Kriva Palanka	7	9	2	10	1
22 Ilinden	9	10	1	10	0
23 Gevgelija	8	11	3	10	-1
24 Delcevo	9	6	-3	9	3
25 Bogdanci	9	7	-2	9	2
26 Jegonovce	5	7	2	9	2
27 Sveti Nikole	9	7	-2	9	2
28 Butel	8	8	0	9	1
29 Cusinovo-Oblesevo	6	8	2	9	1
30 Karpos	10	8	-2	9	1
31 Vinica	12	9	-3	9	0
32 Ohrid	12	11	-1	9	-2
33 Demir Kapija	5	2	-3	8	6
34 Krusevo	9	4	-5	8	4
35 Cucer Sandevo	5	5	0	8	3
36 Pehcevo	6	5	-1	8	3
37 Probistip	10	6	-4	8	2
38 Radovis	6	7	1	8	1
39 Resen	8	8	0	8	0

63) Not applicable as not monitored at the period, thus there is no possibility for comparison as well

MEASURING BUDGET TRANSPARENCY OF THE MACEDONIAN MUNICIPALITIES – TRANSPARENCY...

LSGU Name	Index Fiscal	Index Fiscal	Improvement +, Decline -	Index Fiscal	Improvement +, Decline -
	2014-2015	2016-2017	(I2014-2015 to I 2016-2017)	2017-2018	(I2016-2017 to I 2017-2018)
40 Valandovo	2	8	6	8	0
41 Aracinovo	6	0	-6	7	7
42 Bogovinje	8	4	-4	7	3
43 Rosoman	3	4	1	7	3
44 Sopiste	5	4	-1	7	3
45 Struga	9	4	-5	7	3
46 Konce	6	6	0	7	1
47 Vevcani	6	6	0	7	1
48 Makedonski Brod	9	7	-2	7	0
49 Novaci	9	7	-2	7	0
50 Caska	11	8	-3	7	-1
51 Kumanovo	5	11	6	7	-4
52 Negotino	9	0	-9	6	6
53 Karbinci	5	2	-3	6	4
54 Berovo	6	5	-1	6	1
55 Brvenica	5	5	0	6	1
56 Suto Orizari	6	5	-1	6	1
57 Dojran	5	7	2	6	-1
58 Kratovo	5	8	3	6	-2
59 Cair	6	0	-6	5	5
60 Debarca	7	3	-4	5	2
61 Mogila	11	5	-6	5	0
62 Tearce	3	5	2	5	0
63 Lozovo	10	6	-4	5	-1
64 Stip	12	6	-6	5	-1
65 Novo Selo	5	0	-5	4	4
66 Gradsko	6	3	-3	4	1
67 Lipkovo	7	3	-4	4	1
68 Centar Zupa	5	4	-1	4	0
69 Plasnica	4	4	0	4	0
70 Petrovec	5	5	0	4	-1
71 Rankovce	7	5	-2	4	-1
72 Staro Nagoricane	3	5	2	4	-1
73 Studenicani	3	5	2	4	-1
74 Tetovo	11	5	-6	4	-1
75 Dolneni	6	2	-4	3	1
76 Krivogastani	7	4	-3	3	-1
77 Debar	6	9	3	3	-6
78 Zelino	9	8	-1	2	-6
79 Zelenikovo	5	2	-3	1	-1
80 Saraj	6	0	-6	0	0
81 Vrapciste	2	0	-2	0	0